

**TOWNSHIP OF GAINES,  
GENESEE COUNTY, MICHIGAN**

**REPORT ON  
AUDITED FINANCIAL STATEMENTS**

**March 31, 2007**

**Taylor  
&  
Morgan**

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Certified Public Accountants

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF GAINES	County GENESEE
Fiscal Year End March 31, 2007	Opinion Date June 7, 2007	Date Audit Report Submitted to State September 7, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

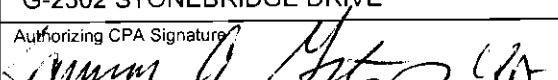
YES  
O

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) TAYLOR & MORGAN, P.C.		Telephone Number 810-230-8200		
Street Address G-2302 STONEBRIDGE DRIVE		City FLINT	State MI	Zip 48532
Authorizing CPA Signature 		Printed Name LAWRENCE A. GAWTHROP		License Number 22359

TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino  
Supervisor

Michael Dowler  
Clerk

Diane Hyrman  
Treasurer

Susan Somers  
Trustee

Lee Purdy  
Trustee



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Certified Public Accountants

## **Independent Auditor's Report**

June 7, 2007

Township Board  
Township of Gaines  
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Gaines' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

*Taylor & Morgan, P.C.*

Taylor & Morgan, P.C.  
Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Management's Discussion and Analysis**

### **Year Ended March 31, 2007**

Our discussion and analysis of the Township of Gaines' financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Township's financial statements. Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2007.

State shared revenues, our largest revenue source, was decreased approximately \$2,000 by the State of Michigan this year. In light of continuing State budget problems, and constant threat(s) to take away all revenue sharing, the Township continues exercise tighter controls over all expenditures.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets, and the statement of activities, provide information about the activities of the Township of Gaines as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayers resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about the activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

### **The Township of Gaines as a Whole**

The following table shows, in condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities <u>2007</u>	Business-type Activities <u>2007</u>	Total <u>2007</u>	Total <u>2006</u>
Assets	\$ 2,413,176	\$ 2,091,110	\$ 4,504,286	\$ 4,345,932
Current and long term liabilities	<u>405,887</u>	<u>- 0 -</u>	<u>405,887</u>	<u>33,147</u>
Total net assets	\$ <u>2,007,289</u>	\$ <u>2,091,110</u>	\$ <u>4,098,399</u>	\$ <u>4,312,785</u>

Township of Gaines net assets of governmental activities are \$2,007,289 and \$2,091,110 for business type activities; of these amounts \$1,492,711 and \$1,692,952 are unrestricted.

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total 2007</i>	<i>Total 2006</i>
<b>Revenue</b>				
Program Revenue				
Charges for Services	\$ 441,284	\$ 244,995	\$ 686,279	\$ 655,215
Capital grants and contributions	18,375	-	18,375	32,474
			-	
General revenue:			-	
Property taxes	157,867	-	157,867	153,797
Special assessments	167,675	-	167,675	163,446
State-shared revenue	466,419	-	466,419	460,684
Interest	15,389	4,570	19,959	72,098
Franchise fees and other revenue	22,585	-	22,585	24,385
Total revenue	1,289,594	249,565	1,539,159	1,562,099
<b>Program expenses</b>				
General government	303,699	-	303,699	242,619
Public works	505,367	-	505,367	479,938
Fire protection	155,092	-	155,092	211,715
Police protection	37,740	-	37,740	40,021
Road improvements	516,122	-	516,122	163,446
Sanitation	-	319,239	319,239	237,811
Other	10,654	5,043	15,697	97,492
Total program expenses	1,528,674	324,282	1,852,956	1,473,042
Change in net assets	\$ (239,080)	(74,717)	(313,797)	\$ 89,057

## **Governmental Activities**

The Township of Gaines total governmental activity revenues were \$1,289,594 compared to \$1,257,167 in the prior year. There was a slight decrease in State-shared revenue, which was offset by a slight increase in property taxes and fees and permits.

Governmental activity expenditures of \$1,528,674 were recorded for the year. This included increases in property and liability insurance rates.

## **Business Type Activities**

The Township also provides municipal water and sanitary sewer to some residents. In the fiscal year ended March 31, 2007, the increase in water charges from the county were absorbed mostly by the Township causing a decrease in the Net Assets.

## **Township of Gaines Funds**

The fund financial statements provide detailed information about the most significant funds, not the Township of Gaines as a whole. The Township Board of Trustees creates funds to help manage money for specific purposes as well as show accountability for certain activities, Fire, Police, Water, Sewer, and Garbage.



a) **General Fund**

Functions relating to the general governmental activities of the Township, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. The day to day operation expenses for the Police, and Fire Departments is also paid out of the General Fund.

b) **Police Fund**

The Police Department Fund is funded through the General Fund.

c) **Fire Fund**

The Fire Department Fund is funded through the General Fund.

d) **Garbage Fund**

Gaines Township has a special assessment to pay for Township wide Garbage collection.

e) **Township of Gaines**

Special Assessments were created and spread over ten years for the paving of Elms Road, Reid Road, Hill Road, Van Vleet Road, and Baldwin Road. Elms Road Special Assessment began in 1999 with a balance of \$71,249.99. Reid Road Special Assessment began in 2002 with a balance of \$219,728.06. Hill Road Special Assessment began in 1999 with a balance of \$142,518.52. Van Vleet Road Special Assessment began in 2004 with a balance of \$266,709.00. Morrish Road Special Assessment began in 2005 with a balance of \$138,749.08. The Baldwin Road Special Assessment began with a balance of \$405,175.

### **General Fund Budgetary Highlights**

Over the course of the year, the Township Board monitors and amends the budget to account for unanticipated events during the year. The most significant change was a decrease in State shared revenue. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these State cuts. The Township was also faced with a legal settlement that was taken out of General Fund. Continued growth in Gaines Township has increased the revenue from fees and permits. With the continued growth the township board has created a capital outlay budget line for needed road improvements. As a whole the township with prudent budgeting and continued monitoring of all expenditures is in great financial health.

### **Economic Factors and Next Years Budgets and Rates**

As this budget year closes there are a number of factors that will influence next years budget, including the fact that State Shared Revenue continues to be cut.

### **Contacting the Township of Gaines Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township of Gaines finances, and to show the Township's accountability for the money it receives. If you have any questions about this report, or need additional information, we welcome you to contact the administration offices at the Township Hall.

## **BASIC FINANCIAL STATEMENTS**

**TOWNSHIP OF GAINES**  
**GOVERNMENT WIDE STATEMENT OF NET ASSETS**  
**MARCH 31, 2007**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 1,132,571	\$ 1,439,780	\$ 2,572,351
Receivables (net)	530,477	53,172	583,649
Due from other funds	140,196	200,000	340,196
Capital assets (net)	609,932	398,158	1,008,090
<b>Total assets</b>	<b>2,413,176</b>	<b>2,091,110</b>	<b>4,504,286</b>
<b>Liabilities</b>			
Accounts payable	16,179	-	16,179
Retainage payable	49,512	-	49,512
Due to other funds	340,196	-	340,196
<b>Total liabilities</b>	<b>405,887</b>	<b>-</b>	<b>405,887</b>
Invested in capital assets, net of related debt	609,932	398,158	1,008,090
Unrestricted	1,397,357	1,692,952	3,090,309
<b>Total net assets</b>	<b>\$ 2,007,289</b>	<b>\$ 2,091,110</b>	<b>\$ 4,098,399</b>

**TOWNSHIP OF GAINES**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs:						
Primary government						
General government	\$ 310,842	\$ 61,318	\$ 41,512	\$ (208,012)	\$ -	\$ (208,012)
Public works	575,966	545,992	-	(29,974)	-	(29,974)
Fire protection	221,217	-	10,000	(211,217)	-	(211,217)
Police protection	37,740	-	-	(37,740)	-	(37,740)
Road improvements	510,922	-	-	(510,922)	-	(510,922)
Other	5,200	-	-	(5,200)	-	(5,200)
Total governmental activities	1,661,887	607,310	51,512	(1,003,065)	-	(1,003,065)
Business-type activities						
Water and waste	324,282	244,995	-	-	(79,287)	(79,287)
Total primary government	\$ 1,986,169	\$ 852,305	\$ 51,512	(1,003,065)	(79,287)	(1,082,352)
General revenues						
Property tax				165,992	-	165,992
Special assessments				199,251	-	199,251
State-shared revenues				466,419	-	466,419
Unrestricted investment earnings				8,904	4,570	13,474
Franchise fees				20,424	-	20,424
Miscellaneous				2,406	-	2,406
Total general revenues				863,396	4,570	867,966
Change in net assets				(139,669)	(74,717)	(214,386)
Net assets - beginning of year				2,146,958	2,165,827	4,312,785
Net assets - end of year				\$ 2,007,289	\$ 2,091,110	\$ 4,098,399

**TOWNSHIP OF GAINES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2007**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 758,270	\$ 264,805	\$ 109,495	\$ 1,132,570
Due from other funds	90	-	140,106	140,196
Receivables				
Delinquent taxes	16,080	25,101	-	41,181
Interest	14,971	-	-	14,971
Special assessments	405,915	-	-	405,915
Due from other governments	68,410	-	-	68,410
Total assets	<u>\$ 1,263,736</u>	<u>\$ 289,906</u>	<u>\$ 249,601</u>	<u>\$ 1,803,243</u>
<b><u>Liabilities and Fund Equity</u></b>				
<b><u>Liabilities</u></b>				
Accounts payable	\$ 16,179	\$ -	\$ -	\$ 16,179
Retainage payable	-	-	49,512	49,512
Deferred revenue	405,915	-	-	405,915
Due to other funds	140,106	-	200,089	340,195
Total liabilities	562,200	-	249,601	811,801
<b><u>Fund Equity</u></b>				
Fund equity				
Unreserved - designated	93,403	-	-	93,403
Unreserved - undesignated	608,133	289,906	-	898,039
Total fund equity	701,536	289,906	-	991,442
Total liabilities & fund equity	<u>\$ 1,263,736</u>	<u>\$ 289,906</u>	<u>\$ 249,601</u>	<u>\$ 1,803,243</u>

**TOWNSHIP OF GAINES**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 157,867	\$ -	\$ -	\$ 157,867
Special assessments	31,782	309,398	167,375	508,555
Fees and permits	82,565	-	-	82,565
Intergovernmental	461,137	-	-	461,137
Administrative services	49,744	-	-	49,744
Fire contract	10,000	-	-	10,000
Interest	14,038	1,020	331	15,389
Miscellaneous	4,157	180	-	4,337
<b>Total revenues</b>	<b>811,290</b>	<b>310,598</b>	<b>167,706</b>	<b>1,289,594</b>
<b>Expenditures</b>				
General government	303,699	-	-	303,699
Public works	213,254	292,113	-	505,367
Fire protection	155,092	-	-	155,092
Police protection	37,740	-	-	37,740
Other	5,200	-	510,922	516,122
Capital outlay	10,654	-	-	10,654
<b>Total expenditures</b>	<b>725,639</b>	<b>292,113</b>	<b>510,922</b>	<b>1,528,674</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>85,651</b>	<b>18,485</b>	<b>(343,216)</b>	<b>(239,080)</b>
<b>Other financing sources (uses)</b>				
Operating transfers in (out)	(299,401)	-	299,401	-
<b>Total other financing sources (uses)</b>	<b>(299,401)</b>	<b>-</b>	<b>299,401</b>	<b>-</b>
<b>Excess of revenues over (under) expenditures and other financing sources (uses)</b>	<b>(213,750)</b>	<b>18,485</b>	<b>(43,815)</b>	<b>(239,080)</b>
<b>Fund balance - beginning of year</b>	<b>915,286</b>	<b>271,421</b>	<b>43,815</b>	<b>1,230,522</b>
<b>Fund balance - end of year</b>	<b>\$ 701,536</b>	<b>\$ 289,906</b>	<b>\$ -</b>	<b>\$ 991,442</b>

The notes to the financial statements  
are an integral part of this statement.

**TOWNSHIP OF GAINES**  
**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES**  
**TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**MARCH 31, 2007**

Total Governmental Fund Balances		\$ 991,442
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$ 1,247,297	
Accumulated depreciation	<u>(637,365)</u>	609,932
Deferred revenue for special assessment receivables are reported as liabilities in the governmental funds and as revenue or other financing sources in the statement of net assets.		<u>405,915</u>
Total net assets - governmental activities		\$ <u><u>2,007,289</u></u>

**TOWNSHIP OF GAINES**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2007**

Total net change in fund balances - governmental funds	\$	(239,080)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	\$	10,654	
Depreciation Expense		<u>(70,599)</u>	(59,945)

Governmental funds report payments received on special assessments as revenue when received. However, in the statement of activities, these revenues are recorded when they are earned.

New special assessments	\$	405,175	
Current collection of special assessments		<u>(245,819)</u>	<u>159,356</u>

Change in net assets of governmental activities	\$	<u><u>(139,669)</u></u>
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**TOWNSHIP OF GAINES**  
**BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND**  
**STATEMENT OF NET ASSETS**  
**MARCH 31, 2007**

**Assets**

Cash and cash equivalents	\$ 1,439,780
Due from other funds	200,000
Receivables:	
Accounts	15,963
Interest	37,209
Property and equipment - net	<u>398,158</u>
Total assets	<u>2,091,110</u>

**Liabilities**

Total liabilities	<u>-</u>
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**Net Assets**

Invested in capital assets	398,158
Unrestricted net assets	<u>1,692,952</u>
Total net assets	<u>\$ 2,091,110</u>

**TOWNSHIP OF GAINES**  
**BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

Operating revenues	
Charges for services	\$ <u>244,995</u>
Total operating revenues	244,995
Operating expenses	
Depreciation	7,769
Pump maintenance	50,653
County sewer charges	76,721
County water charges	127,167
Tap in costs	<u>56,929</u>
Total operating expenses	<u>319,239</u>
Operating income/(loss)	(74,244)
Non-operating revenues (expenses)	
Bond interest expense	(5,043)
Interest income	<u>4,570</u>
Total non-operating revenues/(expenses)	<u>(473)</u>
Change in net assets	(74,717)
Net assets - beginning of year	<u>2,165,827</u>
Net assets - end of year	\$ <u><u>2,091,110</u></u>

**TOWNSHIP OF GAINES  
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 244,995
Payments to suppliers	<u>(311,470)</u>
Net cash provided (used) by operating activities	<u>(66,475)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

-

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Interest payments on bonds	(5,043)
Interest received	<u>4,570</u>
Net cash provided/(used) by capital and related financing activities	<u>(473)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Transfers to other funds	<u>(200,000)</u>
Net cash provided (used) by investing activities	<u>(200,000)</u>
Net increase (decrease) in cash & cash equivalents	(266,948)

Cash and cash equivalents - beginning of year	<u>1,706,728</u>
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Cash and cash equivalents - end of year	<u>\$ 1,439,780</u>
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**Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities**

Operating income	\$ (74,244)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	<u>7,769</u>
Net cash provided by operating activities	<u>\$ (66,475)</u>

**TOWNSHIP OF GAINES**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**MARCH 31, 2007**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 3,191
Due from other funds	<u>122</u>
Total assets	\$ <u><u>3,313</u></u>
<b><u>Liabilities</u></b>	
Due to other governmental units	\$ <u>3,313</u>
Total liabilities	\$ <u><u>3,313</u></u>

## **NOTES TO FINANCIAL STATEMENTS**

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Gaines conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

**Government-wide and fund financial statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

**Reporting entity**

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government." A fundamental characteristic of a primary government is that its members are selected by the people in a general election. In addition to having an elected board, a primary government must be both a legally separate and a fiscally independent entity. Thus, Gaines Township qualifies as "primary government" for financial reporting purposes. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The basic criterion of financial accountability is: the primary government is accountable for and able to impose its will upon the potential component unit.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

**TOWNSHIP OF GAINES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2007**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year-end on behalf of the government also are recognized as revenue. Fines, permits, and fee revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The Township reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Waste and Refuse Fund accounts for special assessments that are restricted for sanitary services.
- The Capital Projects Fund accounts for special assessments and other revenue that is restricted for capital asset and infrastructure improvements.

The Township reports the following Major Proprietary Funds:

- The Water and Waste Fund accounts for the cost of collection and treating of waste waters.

Additionally, the Township reports the following:

*Agency Funds* – The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**TOWNSHIP OF GAINES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2007**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for sewage disposal. The Water and Waste Fund also recognizes tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure are recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property tax revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2006 ad valorem tax is levied and collectible on July 1, 2006, and is recognized as revenue in the year ended March 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Gaines Township is \$182,217,533, on which the ad valorem tax levy consisted of .9917 mills for operating purposes. The township bills and collects its own property taxes and also taxes for the school townships of Swartz Creek, Linden, and Durand, and for Genesee County. Collection on all taxes and remittance of them to the various taxing jurisdictions are accounted for in the tax collections fund. Township property tax revenues are recognized when levied.

**Assets, liabilities and net assets or equity**

*Cash and cash equivalents* – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired.

*Receivables and payables* – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

*Prepaid items* – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

*Capital assets* – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007**

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	25 to 40 years
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

*Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Gaines Township has the following fund balance designations as of March 31, 2007:

Fire Depreciation	\$79,353
Police Capital Outlay	<u>\$14,050</u>
	<u>\$93,403</u>

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative data**

Comparative data is not included in the Township's financial statements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary information**

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Township's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

**Excess of expenditures over appropriations in budgeted funds**

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund-Elections	\$ - 0 -	\$ 8,496
General Fund-Board of Review	\$ 2,200	\$ 2,600
General Fund-Fire Protection	\$ 141,057	\$ 155,092
General Fund-Assessor	\$ 30,000	\$ 30,012

**TOWNSHIP OF GAINES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2007**

**NOTE 3 – CASH AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91 authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Board authorized all of the investments allowable under Michigan law and is in accordance with statutory authority.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Township's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, defined as 5% or more of the Township's total investments. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Township's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs).

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned or the Township will not be able to recover collateral securities, if any, in the possession of an outside party. At March 31, 2007, the Township had \$1,772,350 of its deposit balances uninsured and uncollateralized.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. This risk is minimized by the Township through limiting investments to those of a prime or better rating and pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Township is not authorized to invest in investments that would be subject to this type of risk.

**TOWNSHIP OF GAINES**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2007**

**NOTE 4 - INTERFUND TRANSFERS**

As of March 31, 2007, the Township had the following interfund transfers:

	Transfers to Other Funds	Transfers From Other Funds
General Fund	\$ 299,401	\$
Capital Projects Fund	299,401	299,401
	<u>\$ 299,401</u>	<u>\$ 299,401</u>

Transfers from General Fund to Capital Projects Fund were to cover costs associated with the Van Vleet road paving project.

**NOTE 5 - RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors, and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all its insurance needs.

**NOTE 6 - PENSION PLAN**

The Township has a qualified, contributory defined contribution pension plan covering elected officials and eligible employees. Eligible employees are those who work 40 hours per week on a regular basis. Manu Life Financial administers the plan, which was adopted by the Township Board on March 6, 1991. The Township will make contributions to the plan of 10% of eligible employees' annual compensation. Compensation is defined as the basic annual rate of pay in effect at the beginning of the plan year, not including overtime pay, bonuses, and commissions. For the fiscal year ended March 31, 2007, actual Township contributions totaled \$8,590. Participant plan contributions begin immediately with no waiting period for vesting. The plan is referred to as a money purchase pension plan and is not insured by the Pension Benefit Guaranty Corporation (PBGC).

**NOTE 7- CAPITAL ASSETS**

Summary of capital asset transactions of the primary government:

	Balance April 1, 2006	Additions	Disposals and Adjustments	Balance March 31, 2007
<b>Governmental activities</b>				
Land & improvements	\$ 10,400	\$	\$	\$ 10,400
Buildings & additions	358,477			358,477
Furniture & equipment	272,626	10,655		283,281
Fire trucks & other vehicles	<u>595,139</u>	<u>          </u>	<u>          </u>	<u>595,139</u>
Subtotal	1,236,642	10,655		1,247,297
Accumulated Depreciation:				
Buildings & additions	144,966	5,355		150,321
Furniture & equipment	91,206	27,335		118,541
Fire trucks & other vehicles	<u>330,594</u>	<u>37,909</u>	<u>          </u>	<u>368,503</u>
Subtotal	<u>566,766</u>	<u>70,599</u>	<u>          </u>	<u>637,365</u>
Governmental activities net capital assets	<u>\$ 669,876</u>	<u>\$ (59,994)</u>	<u>\$ 70,599</u>	<u>\$ 609,932</u>

**TOWNSHIP OF GAINES  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2007**

	Balance April 1, 2006	Additions	Disposals and Adjustments	Balance March 31, 2007
<b>Business-type activities</b>				
Sewer system	\$ 594,287	\$ _____	\$ _____	\$ 594,287
Subtotal	594,287			594,287
 Accumulated Depreciation:				
Sewer system	188,360	_____	7,769	196,129
Subtotal	188,360	_____	7,769	196,129
Business-type activities net capital assets	\$ 405,927	\$ _____	\$ 7,769	\$ 398,158

Depreciation expense was charged to programs of the primary government as follows:

**Government activities**

General Government	\$ 5,823
Fire Protection	64,776
Total governmental activities	\$ 70,599

**Business-type activities**

Sewer	\$ 7,769
Total business-type activities	\$ 7,769

**NOTE 8 - BUILDING AND SIMILAR FEES**

Michigan Department of Treasury Local Audit Letter 2000-6 states that local units can retain compliance with P.A. 245 of 1999, Statewide Construction Code Act, by accounting for building department revenues in the General Fund only as long as the local unit's fee structure is not intended to recover the full cost of the enforcing agency and the local unit has the ability to track the full costs and revenues of this activity without creating a separate fund. The Township of Gaines complies with these provisions, and therefore, the building department activity is recorded in the General Fund.

Building department revenues and expenditures for the year ended March 31, 2007 are as follows:

Revenues	\$49,321
Expenditures	\$43,609

The expenditures listed above include only direct costs for the building department; an allocation for occupancy, insurance and other indirect costs is not included. It is management's opinion that, were the indirect costs included, building department revenues would not recover the full cost of the activity.

## **REQUIRED SUPPLEMENTAL INFORMATION**

**TOWNSHIP OF GAINES**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE-GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	Budgeted Amounts		Actual	Variance Over/(Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 147,000	\$ 147,000	\$ 157,867	\$ 10,867
Special assessments	-	-	31,782	31,782
Fees and permits	98,800	98,800	82,565	(16,235)
Intergovernmental	460,257	460,257	461,137	880
Administrative fees	38,000	38,000	49,744	11,744
Fire contract	10,000	10,000	10,000	-
Interest	23,938	23,938	14,038	(9,900)
Miscellaneous	19,375	26,425	4,157	(22,268)
Total revenues	797,370	804,420	811,290	6,870
Expenditures				
General government				
Trustees	3,020	3,020	2,170	850
Supervisor	18,500	18,500	18,500	-
Assessor	30,000	30,000	30,012	(12)
Elections	-	-	8,496	(8,496)
Clerk	25,000	28,000	27,871	129
Board of review	2,200	2,200	2,600	(400)
Treasurer	25,000	25,000	24,385	615
Building and grounds	55,000	48,100	47,922	178
General administration	173,300	173,650	141,743	31,907
Public works	238,851	242,551	213,254	29,297
Fire protection	141,057	141,057	155,092	(14,035)
Police protection	40,842	40,842	37,740	3,102
Other				
Planning commission	3,000	3,400	3,550	(150)
Zoning board of appeals	1,000	1,500	1,650	(150)
Building inspector	7,000	7,000	-	7,000
Capital outlay	33,600	39,600	10,654	28,946
Total expenditures	797,370	804,420	725,639	78,781
Other financing sources (uses)				
Operating transfers out	-	-	(299,401)	(299,401)
Total other financing sources (uses)	-	-	(299,401)	(299,401)
Excess of revenues over (under) expenditures and other financing sources (uses)	-	-	(213,750)	(213,750)
Fund balance - beginning of year	915,286	915,286	915,286	-
Fund balance - end of year	\$ 915,286	\$ 915,286	\$ 701,536	\$ (213,750)

**TOWNSHIP OF GAINES**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE-SPECIAL REVENUE FUND-WASTE AND REFUSE**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	<u>Budget</u>			Variance Over/(Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 295,000	\$ 295,000	\$ 309,398	\$ 14,398
Miscellaneous	50	50	180	130
Interest	<u>500</u>	<u>500</u>	<u>1,020</u>	<u>520</u>
Total revenues	295,550	295,550	310,598	15,048
Expenditures				
Contracted services	<u>289,750</u>	<u>289,750</u>	<u>292,113</u>	<u>(2,363)</u>
Total expenditures	<u>289,750</u>	<u>289,750</u>	<u>292,113</u>	<u>(2,363)</u>
Net change in fund balances	5,800	5,800	18,485	12,685
Fund balance - beginning of year	<u>271,421</u>	<u>271,421</u>	<u>271,421</u>	<u>-</u>
Fund balance - end of year	<u>\$ 277,221</u>	<u>\$ 277,221</u>	<u>\$ 289,906</u>	<u>\$ 12,685</u>

## **OTHER SUPPLEMENTAL INFORMATION**





Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

June 7, 2007

To the Township Board  
Township of Gaines

We have audited the financial statements of the Township of Gaines as of and for the year ended March 31, 2007 and have issued our report thereon dated June 7, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Township of Gaines' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Township of Gaines' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the board of The Township of Gaines.

*Taylor & Morgan, P.C.*

TAYLOR & MORGAN, P.C.  
Certified Public Accountants



Certified Public Accountants

August 17, 2007

To the Board of Trustees of  
The Township of Gaines

We have audited the basic financial statements of Gaines Township (the Township) for the year ended March 31, 2007, and have issued our report thereon dated June 7, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under Generally Accepted Audited Standards**

As stated in our engagement letter dated March 31, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the plan's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly do not express such an opinion.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered The Township of Gaines' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by The Township of Gaines are described in Note 1 to the financial statements. We noted no transactions entered into by The Township of Gaines during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed several audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on The Township of Gaines' financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of as The Township of Gaines' auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees of The Township of Gaines and its management and should not be used for any other purpose.

**Management Letter Comments****Year-End Adjustments**

In the course of our audit, we were required to make several "normal" closing entries in the Township's accounting records that were not completed upon our arrival. We recommend that a year-end closing process be initiated through the Township's accountant to ensure that the necessary adjustments and reconciliations are performed prior to our arrival.

Chart of Accounts

The Township's chart of accounts is not in conformity with the State of Michigan's Uniform account structure. We are now required to report to the State of Michigan at the conclusion of all audits of local units of government this deficiency. It is our understanding that this is in the process of being remedied.

Certificates of Deposit

We noted during our audit that the certificates of deposit are not reconciled in the accounting records. Due to the amount of certificates the Township holds, the interest adjustment is substantial and should be recorded monthly.

*Taylor & Morgan, P.C.*

Taylor & Morgan, P.C., CPA's  
Flint, MI